



Accounting Reforms of Indian Railways Vision and Way Forward

August 2017

Components of 'Accounting Reforms'



Accrual accounting

Rollout of Accrual Accounting on All Indian Railways - Migration from Cash based Accounting to Accrual Based Financial statements to give true financial picture of Indian Railways.

Performance costing

Pilot Study of Existing Costing System, and, development of IT Based Upgraded Costing System - Shift from Traditional Costing to Activity Based Costing to determine Right price and increase market share

Outcome budgeting

Pilot study on Outcome Budgeting and suggest IT enabled framework for its implementation - Efficient Utilization of Public funds

Need for 'Accounting Reforms'



Complete, realistic and current information for managerial and strategic decisions

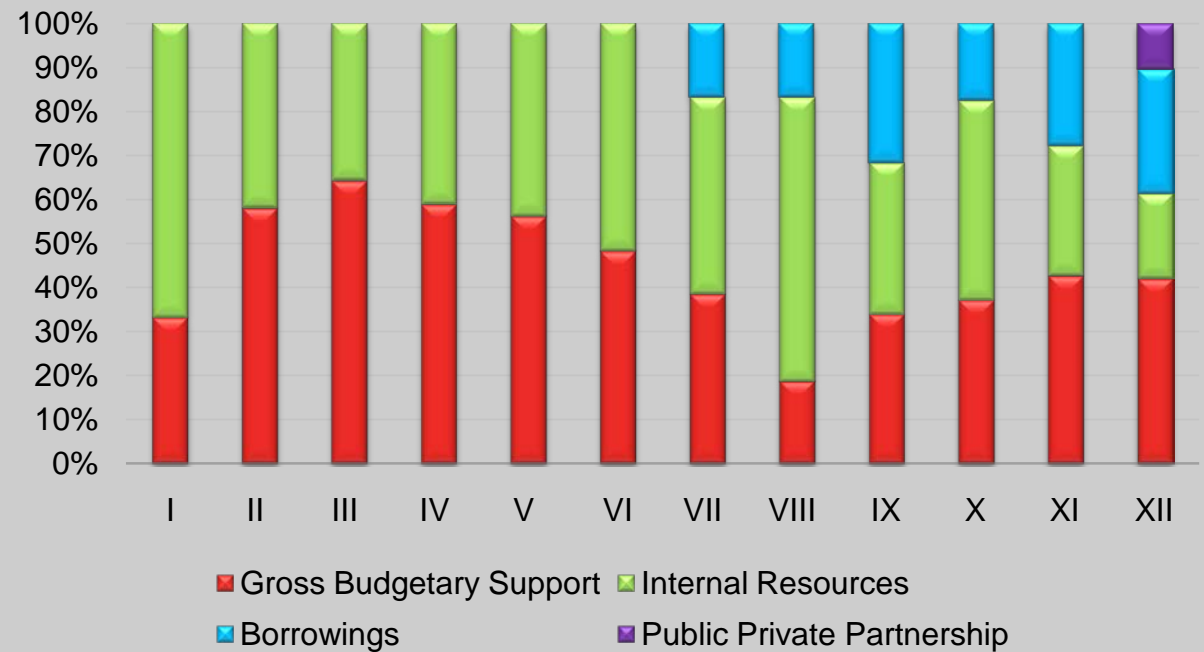


Paramount need for responsive and reliable costing framework



Meeting the funding challenge

Plan funding since independence



► From VII Plan onwards, debt has been bridging the funding gap

Accounting reforms would help in making Indian Railways' finances self-sustainable

Vision of 'Accounting Reforms'



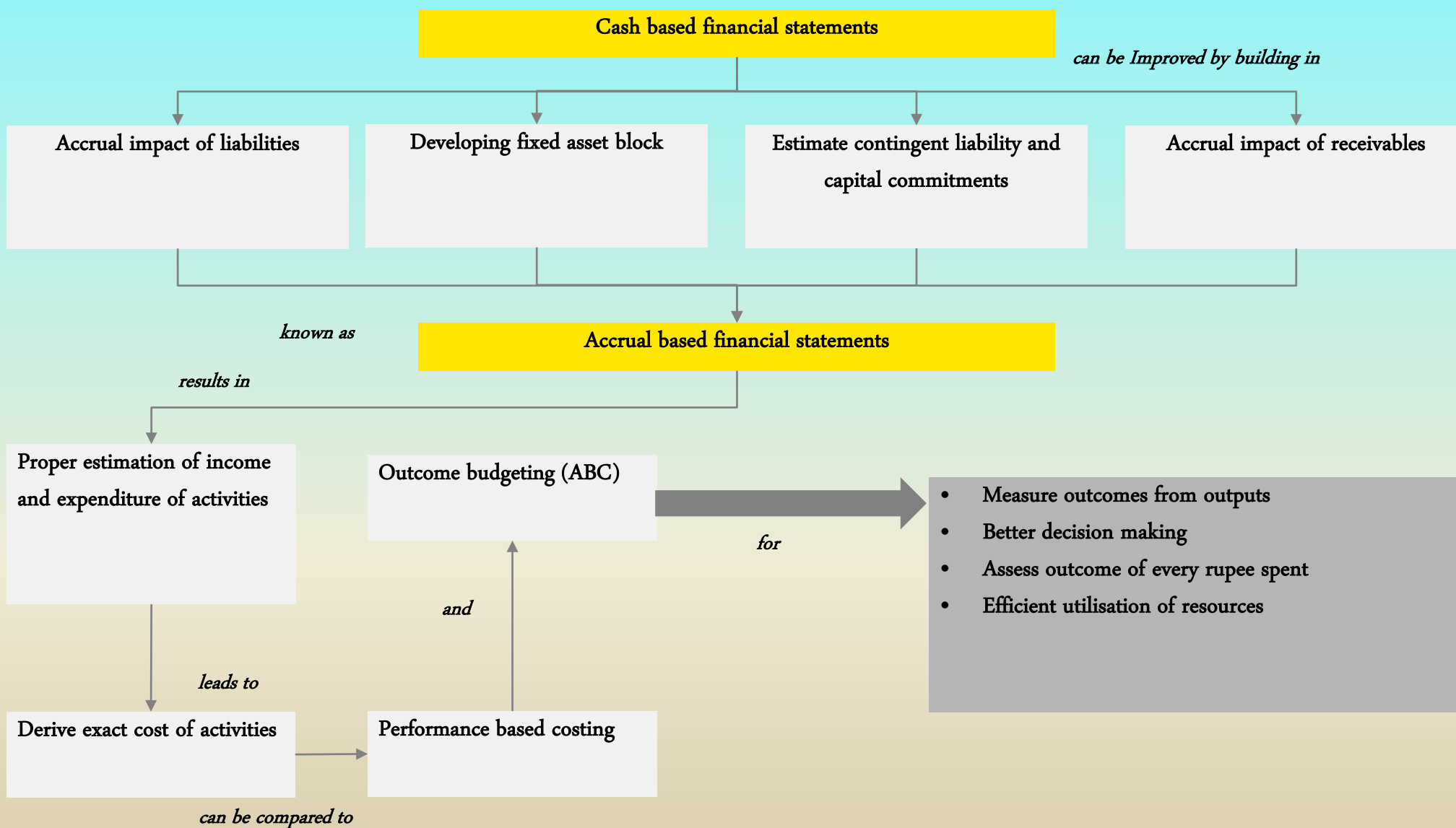
“Accounting Reforms shall act as an engine of self-sustainable growth by providing timely, high quality and meaningful financial information to various stakeholders through right accounting, right costing and right outcome.”

Right
Accounting

Right
Costing

Right
Pricing

Accrual accounting- Process and benefits from cash to accrual system





- ▶ **1. Phase 1 started with pilot Project of Accrual Accounting on Ajmer Division which was subsequently upgraded to entire North Western Railway.**
- ▶ **2. Under pilot project Accrual Based Fixed Assets Register and Financial Statements of NWR prepared for 2014-15.**
- ▶ **3. Following documents were released in National Conference held on 20-12-2016 at Vigyan Bhawan:**
 - ▶ **A. Opening Balance Sheet of NWR as on 31-03-2014;**
 - ▶ **B. Financial Statements for year ended 2014-2015 – Balance sheet, Statement of Profit and Loss, Cash Flow Statement, Accounting Policies and Notes to Accounts**
- ▶ **4. Key Findings of Pilot Study**
 - ▶ **A. CWIP of INR 2,102 crores segregated**
 - ▶ **B. Assets Count of 63000 – of which for 13000 values not available – taken at Nominal Value of INR 1**
 - ▶ **C. Depreciation - INR 499 Crores (Whereas appropriation was only INR 291 Crores)**
 - ▶ **D. Outstanding Lease Liability of INR 2,271 Crores Identified**
 - ▶ **E. Actuarial Liability of INR 28253 Crores identified for NWR Zone only.**
- ▶ **5. Another Pilot Study undertaken on RCF, a Production Unit.**



- ▶ 6. Rollout of Accrual Accounting on all Indian Railways is now under progress:
 - ▶ A. 130+ CAs assisting Railways to prepare the Fixed Assets Register(FAR), Current Assets, Current Liabilities and Financial Statements;
 - ▶ B. Up-dated CSER and Implementation Manual circulated to Railways to assist in Roll out of Accrual Accounting
- ▶ 7. Dashboard – Web enabled IT Dashboard is under development for progress monitoring and data consolidation
- ▶ 8. Expert Group under CA Amarjit Chopra, Chairman, National Advisory Committee on Accounting Standards (NACAS) – Ministry of Corporate Affairs and Ex-president ICAI along with 7 eminent CAs and 4 senior Railways officials, formed to guide and steer the Roll out.
- ▶ 9. Capacity Building – Training of Officers and Staff at NAIR,C-TARA and by CAs – Trained about 1160 Staff and 250 Officers in Accrual Accounting and Upgraded Costing system.
- ▶ 10. Findings and Way Forward shared with Comptroller and Auditor General and Comptroller General of Accounts
- ▶ 11. Progress is being advised to PMO on a monthly basis after Review Meeting on AR held in PMO in Feb. 2017

OUTCOMES EXPECTED FROM PERFORMANCE COSTING



- ▶ To improve usage of limited resources i.e Efficient Capital Budgeting
- ▶ Online Availability of activity-wise costing data including costs incurred on constructing, augmenting, maintaining and operating railway lines;
- ▶ To undertake evaluation studies after commissioning of assets;
- ▶ To arrive at appropriate pricing/tariff decisions for passenger and freight services, production and other activities;
- ▶ To identify profitable, loss making and non value-adding activities; find controllable and uncontrollable costs; discover areas/opportunities for cost optimization/cost reduction; and workout economic break-even points;
- ▶ To improve movement of goods and services; thereby to improve efficiency, productivity, cost competitiveness, profitability, and sustainability; and
- ▶ To improve business planning, budgeting, resource allocation, resource utilization, and investment decisions;
- ▶ To Augment Market Share by Right Costing of Services and reduce empty Rake ratio

CURRENT STATUS



- ▶ **Channel Partner:**
- ▶ **Pilot study on Performance Costing started on Northern Railway in association with Institute of Cost & Works Accountants- Management Accounting Research Foundation (ICWAI-MARF).**

- ▶ **AS-IS STUDY REPORT**
- ▶ **The consultants have submitted draft As-Is-Report detailing existing costing system and are now developing the improved costing system.**

- ▶ **ADVISORY BODY**
- ▶ **Three- tier Advisory Body as indicated below formed on Northern Railway to guide and assist the study:**
 - ▶ o **PHOD committee to guide and monitor study.**
 - ▶ o **SAG Officers Committee to assist consultants.**
 - ▶ o **A team of JAG officers to coordinate with the Consultants for field study.**